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British Columbia Utilities Commission
Sixth Floor, 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Laurel Ross
Acting Commission Secretary and Director

Dear Sirs/Mesdames:

Re: FortisBC Energy Inc.

Project No. 3698886

**Multi-Year Performance Based Ratemaking Plan for 2014 through 2019
approved by British Columbia Utilities Commission Order G-138-14 –
Annual Review for 2017 Rates**

Reply Argument

In accordance with the Regulatory Timetable for this proceeding set out in Commission Order G-122-16, we enclose for filing the electronic version of the Reply Argument of FortisBC Energy Inc.

Yours truly,

FASKEN MARTINEAU DuMOULIN LLP

[original signed by Christopher R. Bystrom]

Christopher R. Bystrom

CB
Enclosure

BRITISH COLUMBIA UTILITIES COMMISSION
IN THE MATTER OF THE UTILITIES COMMISSION ACT,
R.S.B.C. 1996, CHAPTER 473

and

FORTISBC ENERGY INC.
MULTI-YEAR PERFORMANCE BASED RATEMAKING PLAN APPROVED
FOR 2014 THROUGH 2019

ANNUAL REVIEW OF 2017 DELIVERY RATES

REPLY SUBMISSION OF
FORTISBC ENERGY INC.

November 2, 2016

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PART ONE: INTRODUCTION AND OVERVIEW

1. FortisBC Energy Inc. (“FEI” or the “Company”) filed its Annual Review for 2017 Rates (the “Application”) on August 2, 2016 in compliance with British Columbia Utilities Commission (the “Commission”) Order G-138-14, which approved a Performance Based Ratemaking Plan (the “PBR Plan”) for FEI for the years 2014 to 2019. On October 5, 2016, FEI filed an Evidentiary Update to the Application.¹

2. Pursuant to the PBR Plan, FEI proposes to distribute \$5.115 million in earnings sharing to customers in 2017.² FEI has achieved these savings while maintaining a high level of service quality.³

3. As set out in the Application as amended,⁴ FEI requests Commission approval for the following pursuant to sections 59 to 61 of the *Utilities Commission Act*⁵:

- (a) Delivery rates to be maintained at 2016 levels, before consideration of rate riders, effective January 1, 2017;⁶
- (b) The following deferral account approvals as described in Sections 7.5 and 12.4 of the Application and on page 4 of the Evidentiary Update to the Application:
 - Creation of the 2017 Revenue Surplus Deferral Account, attracting short term interest, with an amortization period to be determined in FEI’s Annual Review for 2018 Delivery Rates;⁷

¹ Exhibit B-2-1.

² Exhibit B-12, slide 5.

³ Exhibit B-2, p. 4 and Section 13.

⁴ Exhibit B-2, Application; Exhibit B-2-1, Evidentiary Update to the Application.

⁵ R.S.B.C. 1996, c. 473.

⁶ Exhibit B-2-1, Evidentiary Update to the Application, p. 4.

⁷ Exhibit B-2-1, Evidentiary Update to the Application, p. 4.

- Creation of a rate base deferral account for the All-Inclusive Code of Conduct/Transfer Pricing Policy regulatory proceeding with a one year amortization period, commencing in 2017.
 - A three year amortization period for the existing 2016 Cost of Capital Application deferral account, commencing in 2017.
 - A five-year amortization period for the existing Emissions Regulations deferral account, commencing in 2017.
 - Discontinuance of the non-rate base deferral account for the Kingsvale-Oliver Reinforcement Project Feasibility Costs.
- (c) Rate Stabilization Deferral Account (“RSDA”) riders for 2017 in the amounts set out in Table 10-7 in Section 10 of the Application;
- (d) Phase-In Rate riders for 2017 in the amounts set out in Table 10-9 for Mainland customers and Table 10-11 for Vancouver Island and Whistler customers in Section 10 of the Application; and
- (e) Revenue Stabilization Adjustment Mechanism riders for 2017 in the amounts set out in Table 10-12 in Section 10 of the Application.

4. The Commission-approved regulatory timetable for the proceeding included a round of information requests and a workshop, followed by written argument.⁸ On September 21, 2016, FEI responded to information requests (“IRs”) from the Commission and interveners, including the British Columbia Old Age Pensioners’ and Seniors’ Organization et al. (“BCOAPO”), the B.C. Sustainable Energy Association and the Sierra Club of British Columbia (“BCSEA”), the Commercial Energy Consumers Association of British Columbia (“CEC”), Movement of United Professionals (“MoveUP”) and NOVA Gas Transmission Ltd. (“Nova”). The workshop was held on October 12, 2016, and FEI’s presentation materials and the transcript of the workshop were

⁸ Exhibit A-1.

placed on the record in the proceeding.⁹ FEI filed responses to undertakings given at the workshop on October 19, 2016.¹⁰

5. In support of its approvals sought, FEI relies on the evidence filed in its updated Application, IR responses, the workshop and undertaking responses.

6. On October 26, 2016, BCOAPO, BCSEA, CEC and MoveUP filed final arguments in accordance with the regulatory timetable approved by the Commission. No material issues were raised by interveners in their arguments.

7. Of concern to FEI is MoveUP's improper filing of new evidence in its argument. MoveUP attaches to its argument an internal FEI email from July of this year. This is new evidence that is not on the record. The evidentiary phase of the proceeding closed when the last evidence, FEI's undertaking responses, were filed on October 19, 2016. The regulatory timetable filed by the Commission provides for no further process steps after that date other than argument. As such, no further evidence should be filed in the proceeding without leave of the Commission.

8. It is improper and procedurally unfair for argument to include new evidence. FEI had no opportunity to respond to this evidence with evidence of its own, as FEI cannot in argument file new evidence in its reply argument. In addition, the filing of the internal email in this fashion leaves the potential for incorrect conclusions to be drawn without the benefit of FEI commentary to provide context for and an understanding of the meaning of the email. FEI submits that the proper remedy is for the Commission to disregard the evidence and related argument of MoveUP. The email and all related submissions should be disregarded by the Commission. This includes the sections of MoveUP's argument from the last paragraph of page

⁹ Exhibit B-10. The Workshop Transcript is available on the Commission's website at <http://www.bcuc.com/ApplicationView.aspx?ApplicationId=507>.

¹⁰ Exhibit B-11.

5 to the bold heading on page 6, as well as the email attached to the submission. FEI has therefore not responded to any of MoveUP's submissions on the new evidence.

9. In the remainder of this Reply Submission, FEI will respond to the comments of interveners in their final arguments.

PART TWO: REPLY SUBMISSIONS

A. Delivery Rate Increase Proposal

10. FEI's Application initially requested a 1.2% delivery rate increase effective January 1, 2017.¹¹ FEI updated this request in its Evidentiary Update, which identified a number of changes which resulted in a revenue surplus of \$31.456 million.¹² This surplus was primarily due to the change in the date that the Tilbury Expansion project is forecast to be included in rate base, from 2017 to 2018. The result of this revenue surplus would be a decrease to 2017 proposed delivery rates of 4.06 percent, followed by a delivery rate increase in 2018 when the Tilbury Expansion project enters rate base.¹³

11. To avoid a delivery rate decrease in 2017, followed by a delivery rate increase in 2018, FEI proposed in its Evidentiary Update that 2016 delivery rates be held at existing levels (before consideration of rate riders). FEI proposed that the forecast 2017 revenue surplus be held in a new deferral account, called the 2017 Revenue Surplus deferral account. The balance in this deferral account is proposed to be returned to customers to mitigate future rate increases. FEI proposes to set the amortization period for the account in the next Annual Review proceeding, when more information is known about potential rate increases in 2018 and 2019.¹⁴

¹¹ Exhibit B-1.

¹² Exhibit B-2-1, p. 4.

¹³ Exhibit B-2-1, p. 4.

¹⁴ Exhibit B-11, Undertaking No. 3.

12. In FEI's response to Undertaking No. 3, FEI evaluated other possible rate smoothing options. One of the options was a 2 percent increase to 2017 delivery rates and the use of a Revenue Surplus Deferral account with a two-year amortization period. FEI stated that this option "provides the most rate stability for customers, based on the forecast assumptions. FEI therefore believes that a 2 percent delivery rate increase in 2017 would be a reasonable option and provide the most flexibility to smooth out rate increases in future years for the benefit of customers."¹⁵ FEI stated that it would be amenable to the 2 percent delivery rate increase option.

13. Interveners took the following positions in their arguments:

- (a) BCOAPO states that it prefers the 2 percent rate increase option as this option allows for the greatest rate stability over a period of years, with no additional increase in rates.¹⁶
- (b) CEC appears to support FEI's proposed rate freeze option,¹⁷ but the CEC submits that the Commission should consider deferring amortization of the RSDA for 2017 and instead apply the final amortization to 2018.¹⁸

14. FEI opposes the CEC's proposal to defer amortization of the RSDA for 2017, which could only be accomplished by reducing or eliminating the 2017 RSDA rate rider which is applicable only to Mainland customers. The RSDA is one of the mechanisms approved by the Commission to implement common rates across FEI's service areas. The Commission determined that the RSDA balance is to be returned to Mainland customers over a three-year period effective as of the date of the amalgamation.¹⁹ The CEC's proposal would result in a

¹⁵ Exhibit B-11.

¹⁶ BCOAPO Argument, p. 2.

¹⁷ CEC Argument, paras. 182-184 and 186.

¹⁸ CEC Argument, para. 166.

¹⁹ Commission Order G-21-14, dated February 26, 2014, item 3. f. approved: "The use of a Rate Stabilization Deferral Account (RSDA) Rider, to permit the distribution of the balance in the RSDA to non-bypass customers in the current FEI service area over a three year period effective as of the date of the amalgamation."

delay in the transition to common rates and would be contrary to an existing Commission order, as the RSDA balance would not be returned over the required three year period. Further, the CEC's proposal is unnecessary, as the level of rate mitigation deemed appropriate by the Commission can be achieved by adjusting the delivery rate increase alone. There is therefore no need to consider a change to the RSDA rate riders.

15. FEI's proposal for a rate freeze as set out in its Evidentiary Update is consistent with Commission past practice and provides a reasonable level of mitigation for future rate increases. FEI, however, is amendable to the 2% delivery rate increase option preferred by BCOAPO, which would result in a greater balance in the 2017 Revenue Surplus deferral account that could be used to mitigate future rate increases.

B. Evaluation of PBR

16. FEI provides its evaluation of PBR to date in section 1.4 of the Application. In summary, FEI has continued its productivity focus in 2016 and initiated additional projects to enhance the customer experience and improve productivity. As a result of this focus and these initiatives, FEI was able to realize savings in O&M expenditures, while FEI's capital expenditures continue to be above the capital formula amount. Overall, the savings achieved result in \$5.115 million²⁰ of earnings sharing that will be returned to customers in 2017, serving to reduce overall delivery rates for FEI's customers. FEI's performance with respect to Service Quality Indicators ("SQIs"), as reported in Section 13 of the Application, demonstrates that FEI achieved these savings while maintaining a high level of service quality.²¹

17. In the following subsections, FEI replies to the submissions of interveners on the topic of the evaluation of PBR.

²⁰ Exhibit B-2, p. 1, lines 17-18.

²¹ Exhibit B-2, p. 1, lines 19-20.

(a) Capital Deadband

18. Unlike previous years, FEI is projecting to exceed the 15% two-year cumulative dead band in 2016. The operation of the dead band as approved by the Commission was summarized on page 12 the Application as follows:

- The capital dead band places a limit on the extent to which there is earning sharing on variances from (either above or below) the capital formula amount;
- The threshold for the capital dead band is a one year 10 percent variance or a two-year cumulative 15 percent variance from the capital formula amount;
- If the capital dead band is exceeded, the opening plant in service for ratemaking purposes in the following year will be adjusted up or down by the amount that actual capital expenditures vary outside of the dead band from the formula-based amount, and the capital expenditure level utilized in calculating the earnings sharing is adjusted up or down by the same amount;
- The result of exceeding the capital dead band is that there is no earnings sharing for amounts outside of the dead band;
- If the capital dead band is exceeded, FEI will make a recommendation in the Annual Review regarding whether there is a need to adjust (or “rebase”) the capital formula amount for the following year.

19. FEI explained that over 2015 and 2016 capital spending will be cumulatively 19.1 percent above the combined capital formula amounts for those years, which exceeds the two-year cumulative dead band by 4.1 percent. In accordance with the operation of the capital dead band, FEI added 4.1 percent of its 2016 capital spending (\$6.118 million) to its opening plant in service for 2017. FEI also reduced the cumulative capital expenditures utilized in the earning sharing mechanism by the same amount (\$6.118 million), such that the earnings

sharing being return to customers is increased. In this way, there is no earnings sharing on the amount by which FEI exceeded the dead band.²²

20. FEI does not propose any increase to the annual capital formula amount for the remaining years of the PBR term. In FEI's view, it is difficult to determine what amount should be added to the annual capital formula amount, and a process to review and determine what capital items should be added into the capital formula would be complex and not an efficient solution. Further, there is little difference between the results of increasing the capital formula amount, versus making no adjustment.²³ This was illustrated on slide 10 of the presentation workshop.²⁴

21. By not adjusting the capital formula amount as FEI proposes, the incentive properties of the PBR Plan remain intact and will remain consistent throughout the remainder of the PBR term. While FEI expects to continue to experience capital cost pressures, the dead band mechanism remains a reasonable way to deal with capital cost pressures by ensuring no sharing of negative earnings impacts with customers for capital expenditures in excess of 10 percent of the formula amount or 15 percent over two years.²⁵

22. FEI therefore submits that its proposed treatment of capital over the cumulative 2-year dead band is calculated in accordance with prior Commission decisions and that the annual capital formula amount should not be adjusted.

23. BCOAPO is the only intervener to take any issue with FEI's dead band proposal. BCOAPO states:

BCOAPO is concerned that FEI is not calculating the percentages correctly. To calculate the percentage variance over the two years, the calculation is to add actual and forecast capital additions for the two years, and calculate the

²² Exhibit B-2, p. 12; Transcript, Vol. 1, pp. 12-18.

²³ Transcript, Vol. 1, p. 18.

²⁴ Exhibit B-11.

²⁵ Exhibit B-2, Application, pp. 12-13.

percentages. This is not the average percentage, but the percentage variance on the cumulative variance.²⁶

24. FEI is calculating the dead band in accordance with the Commission's direction for a "two year cumulative 15 percent dead-band".²⁷ Specifically, FEI calculated the cumulative 19.1% variance as the sum of the 2015 and 2016 variance percentages from Table 1-3 (9.88% + 9.22% = 19.1%).²⁸

25. BCOAPO does not give any reason why FEI's calculation is incorrect. Instead, BCOAPO offers an alternative calculation.²⁹ The calculation presented by BCOAPO "to add actual and forecast capital additions for the two years, and calculate the percentages", however, results in the calculation of an average variance, not a cumulative variance.³⁰ For example, if in year one there was a 10% variance and in year two there was a 5% variance, then BCOAPO's calculation results in a 7.5% variance. Using this calculation does not result in a cumulative variance. It also renders the two-year cumulative dead band meaningless since it would never come into play. This is because if FEI were below the 10% dead band in two consecutive years, it would be mathematically impossible for it to exceed the two-year 15% deadband. BCOAPO's calculation must therefore be rejected.

(b) Cross-Charges for FEI Customer Service Representatives Providing Service to FortisBC Inc.

26. MoveUP brought attention to the fact that FEI has achieved savings and improved customer service by using its Customer Service Representatives to answer electric calls for its sister company, FortisBC Inc. ("FBC"). At the workshop, Ms. Mehrer explained why FEI and FBC initiated this shared service activity and the benefits of doing so, as follows:³¹

²⁶ BCOAPO Argument, p. 3.

²⁷ Exhibit B-2, Application, p. 11.

²⁸ BCOAPO Argument, p. 3.

²⁹ BCOAPO Argument, p. 3.

³⁰ Exhibit B-4, BCOAPO IR 1.1.1.

³¹ Transcript Vol. 1, pp. 23-24.

Electric calls are normally handled by agents located in our Trail office. It's a relatively small contact centre with approximately 20 to 30 agents on at any given time. Due to the relatively small size of this contact centre it's very difficult to react to unanticipated changes in volume.

In 2015 we began to leverage FEI employees in our Prince George contact centre to help with electric calls during these peak periods. Eighteen additional agents were trained and are now available to answer calls for the electric company when required and when FEI can spare the resources.

During the time that these agents are answering electric calls, they're also doing work for the gas utility in the form of off-contact work. This is work that can be done without having to speak to a customer. An example of this would be returned mail, or investigating vacant premises.

Using FEI contact centre agents to answer electric calls has many benefits. The variable work volumes can be better addressed, especially when they occur at different times for FEI and FBC. FBC can leverage the benefits of a larger contact centre during peak call volume times, providing better service to customers and staff have the opportunity to learn new things and have more variety in their work. Finally, customers receive a high level of service and benefit from lower costs in both utilities.

27. In short, FEI and FBC are sharing services to generate efficiencies that improve service quality and provide service at lower costs than would otherwise be required for the utilities acting separately. This activity is consistent with the direction of the two companies since coming under common ownership, and is consistent with FEI's ongoing focus on achieving efficiencies for the benefit of its customers. FEI believes that the Commission and intervener groups that represent FEI's customers should be supportive of such shared service activities. FEI notes that BCOAPO, CEC and BCSEA do not express any concerns and take no issue with FEI's shared services with FBC in their arguments.

28. MoveUP's argument, however, characterizes the sharing of services as a novel and concerning type of reorganization, that is being conducted without Commission oversight, unfairly allocates costs, compromises service quality and requires close scrutiny by the Commission. FEI submits that MoveUP's submissions are misleading and not based in the evidence.

29. Contrary to MoveUP's submissions, the record shows that FEI is pursuing reasonable cost efficiencies that are to the benefit of customers. FEI trains its Customer Service Representatives to answer electric calls using the same training used for FBC employees.³² The use of FEI Customer Service Representatives to answer FBC calls has increased the quality of service to FBC's customers, at reduced costs for both FEI and FBC.³³ FEI has reasonably allocated costs for its shared service activities pursuant to the shared services agreement between the companies, using a cost per interaction approach that the Commission has already determined to be reasonable and fair.³⁴ The amount being allocated is currently below \$100,000. Pursuant to the Commission's direction from last year's Annual Review, if the amount exceeds \$100,000, FEI will consider alternative cost allocation approaches.³⁵

30. FEI has been transparent and forthcoming with respect to its operations. FEI has responded to numerous information requests from MoveUP in this proceeding and in previous proceedings, as well as providing fulsome responses to questions at the Annual Review workshop.³⁶ The result is that the details of FEI's shared services with FBC have been subjected to thorough review by the Commission.

31. FEI submits that MoveUP's argument must be rejected as it does not represent a fair or balanced view of the evidence.

32. FEI has responded in more detail to MoveUP's comments in the table below.

MoveUP Submission	FEI Response
The Commission has never examined the operational wisdom of morphing from the past situation where each utility had a discrete pool of customer care employees who were specialists in that utility's unique issues to the	The Commission has had the opportunity to examine FEI's shared services activity in previous Annual Reviews of FEI and FBC, and now again in the current Annual Reviews.

³² Exhibit B-7, MoveUP 1.2.2.9.

³³ Transcript Vol. 1, pp. 23-24.

³⁴ Page 24 of Appendix A to Commission Order G-193-15.

³⁵ Page 24 of Appendix A to Commission Order G-193-15.

³⁶ E.g., Exhibit B-7.

MoveUP Submission	FEI Response
<p>one we have now where there is a growing pool of employees who are expected to field questions (including calls from construction contractors seeking guidance) for both the gas and electric utilities, despite their dramatically different technologies, equipment, processes, logistics, risks and hazards.</p>	<p>It is operationally wise to utilize FEI’s Customer Service Representatives to provide service to FBC customers where it is efficient to do so. This activity results in savings for customers of both utilities and increases service quality.</p> <p>The Commission has reviewed the shared services agreement between FEI and FBC.³⁷</p> <p>The sharing of services amongst entities is generally expected to reduce costs through economies of scale. This is what FEI and FBC are achieving, albeit on a small scale at this time in the contact centres.</p> <p>FEI customer service staff answering FBC calls receive the same training as FBC staff answering the same calls.³⁸ There is no evidence of “dramatically different technologies, equipment, processes, logistics, risks and hazards”, as MoveUP alleges.</p>
<p>Thus this is not only a question of financial accounting. More significantly, it raises questions of service quality that have never been examined by the Commission in this context.</p>	<p>The sharing of FEI’s customer service representatives has increased service quality. FBC is able to leverage the benefits of FEI’s larger contact centre during peak call volume times, providing better service to its customers.³⁹</p> <p>Service quality has been canvassed by the Commission in previous Annual Review proceeding, and is again being reviewed in FEI and FBC’s annual proceedings this year.</p> <p>Service quality is addressed in FBC’s Annual Review for 2017 Rates proceeding, as FBC received a specific direction related to service</p>

³⁷ Exhibit B-7, MoveUP 1.2.2.11.

³⁸ Exhibit B-7, MoveUP 1.2.2.9.

³⁹ Transcript, Vol. 1, Ms. Mehrer, pp. 23-24.

MoveUP Submission	FEI Response
	<p>quality in the Commission’s decision on FBC’s Annual Review for 2016 Rates, “to work with FEI to provide information on their capabilities for individual tracking of service quality of FEI employees and an outline of additional costs if individual tracking was put in place in the future.”⁴⁰</p>
<p>This is reminiscent of the initial forays of FEI’s predecessor, Terasen Gas Inc., into the field of Alternative Energy Services. The early stages of that development inspired the Commission to conduct its Inquiry into FortisBC’s Alternative Energy Services and led to a regulatory intervention including the requirement that the utility spin off a new, distinct and regulated utility (now known as FortisBC Alternative Energy Services Inc.) for the development and operation of those programs.</p>	<p>MoveUP’s analogy to alternative energy services is misleading. The sharing of services between two regulated utilities is not similar to the introduction of alternative energy services. FEI’s sharing of services with FBC is not a new feature of utility regulation, but is a common feature that the Commission routinely considers.</p> <p>Shared and corporate services are a regular feature of regulated public utility costs. For example, the Commission can take notice of the fact that FEI shared services for many years with the Vancouver Island and Whistler gas companies prior to amalgamation. There also has been and continues to be sharing of corporate services.</p>
<p>Similarly, we have a situation here where the company is slowly engaging in an ad hoc reorganization of its operations in the absence of any review by its regulator. At a minimum, that process should be subjected to close oversight.</p>	<p>First, FEI and FBC are responsible for the organization and management of their operations. Management decisions of public utilities are outside of the Commission’s jurisdiction. In <i>British Columbia Hydro and Power Authority v. B.C. Utilities Commission</i> (1996), 20 B.C.L.R. (3d) 106 at 119, the Court of Appeal held:</p> <p style="padding-left: 40px;">It is only under s. 112 of the <i>Utilities Act</i> [the former entry, seizure and management provision] that the Commission is authorized to assume the management of a public utility.</p>

⁴⁰ Commission Order G-202-15, dated December 14, 2015, Appendix A, page 28.

MoveUP Submission	FEI Response
	<p>Otherwise the management of a public utility remains the responsibility of those who by statute or the incorporating instruments are charged with that responsibility.</p> <p>MoveUP’s suggestion that FEI and FBC must seek review and approval of organizational changes has no basis in law.</p> <p>Second, the Commission has overseen the sharing of services between FEI and FBC since the companies came under common ownership. In the revenue requirement proceedings prior to PBR and during the Annual Reviews during PBR, the sharing of services has continued to be a topic of Commission review.</p> <p>Third, FEI and FBC’s shared service activities are to the benefit of customers. There is no reason why FEI’s actions to improve customer service and reduce costs warrant particularly close oversight by the Commission.</p>
<p>In that vein, the Union urges this Commission Panel to be wary of and to closely monitor both the operational and accounting contortions FEI and FBC may undertake to maintain its projections of the extent of shared services below the Commission’s \$100,000 threshold: a threshold the Union notes would trigger an examination of the operational and accounting reporting with the result likely being a far greater degree of BCUC and Intervener scrutiny.</p>	<p>MoveUp’s assertions are without merit. There is no evidence of any “operational and accounting contortions” undertaken by FEI or FBC. FEI has no financial or other incentive to avoid scrutiny of the cost allocations between FEI and FBC.</p> <p>FEI’s interest is in maintaining a fair and efficient cost allocation methodology.</p> <p>The Commission has reviewed FEI’s cost per interaction allocation method found on page 24 of Appendix A to Order G-193-15 “that the approach taken by FEI to allocate costs to FBC is not unreasonable nor is it unfair.”</p> <p>The \$100,000 threshold in the Commission’s direction does not “trigger an examination of</p>

MoveUP Submission	FEI Response
	<p>the operational and accounting reporting” as stated by MoveUP. Instead, the direction is as follows:⁴¹</p> <p>“Therefore, if in the future the annual costs being allocated to FBC from FEI for the handling of calls exceeds \$100,000 in any one year, FEI is directed to provide an analysis of various cost allocation methodologies and provide evidence as to which will provide the most appropriate results.”</p>
<p>Just one week later on October 19th, FEI produced a revised estimate of the cross charges relating to these services in its response to Undertaking No. 2. This new Year End Forecast (YEF) jumped by approximately 61% to \$80,423, an increase of \$30,423 (FEI Response to Undertaking No. 2, Exhibit B-11).</p> <p>....</p> <p>Quite frankly, the Union is concerned that on October 12th, 2016, a mere two weeks ago, the utility provided to the Commission and Interveners so deficient a YEF: one 61% below the figure FEI provided only one week later and 78.5% below MoveUP’s revised one. Also of concern: this revision only happened because MoveUP challenged the utility’s assertion that their CSR-related cross charges would only amount to \$50,000 in 2016 and requested a detailed calculation.</p>	<p>MoveUP’s concerns ignore the evidentiary record.</p> <p>FEI’s witnesses in the Annual Reviews have consistently demonstrated their ability to respond to many questions on a variety of matters, with accuracy and detail. They cannot, however, be expected to have updated forecasts on all costs available to them.</p> <p>FEI explained in its undertaking response that the original estimate of \$50,000 was a projection based on what was experienced in Q1 and Q2, and that the revised forecast of \$80,423 reflected the availability of actual information for Q3.⁴² In response to MoveUP IR 1.2.2.5, FEI had stated that cost data for the third quarter of 2016 would not be available until sometime in October.⁴³ It is therefore not surprising that a revised cost estimate based on actual third quarter data became available by the time FEI filed its undertaking response on October 19.</p> <p>FEI’s initial forecast was reasonable based on</p>

⁴¹ Commission Order G-193-15, dated December 7, 2015, Appendix A, p. 24.

⁴² Exhibit B-11, Undertaking No. 2.

⁴³ Exhibit B-7.

MoveUP Submission	FEI Response
	<p>the information available at that time. Upon receiving MoveUp’s request for a detailed calculation, FEI revisited its forecast, revised it for newly available actual information and presented the revised forecast for review. FEI’s response was frank and helpful.</p>
<p>Our client further submits that it is entirely counter-intuitive to project a dramatic decrease in the number of 2016 shared service transactions from Q3 to Q4, given that they are driven by the frequency of higher-demand circumstances for an electrical utility, given the impact of autumn/winter weather on the frequency and severity of outages in such an operation and concerns about billing as heating costs rise. This unlikelihood of validity is significantly heightened by the fact that the latter half of 2016 has seen the training-up of 18 FEI CSC employees to take electric utility calls – which no doubt is reflected in the dramatic surge in the number of transactions from Q2 to Q3.</p>	<p>FEI explained that the increase in interactions in the third quarter was due to vacancies in the Trail office. FEI stated in its undertaking response:⁴⁴</p> <p>“The third quarter was higher than anticipated as a number of vacancies in the Trail office were filled during that time. In addition, more training than expected was completed in support of improvements in first contact resolution, resulting in the need for additional support from Prince George CSRs. These events were contained to Q3 and are not expected to continue in Q4.”</p>
<p>MoveUP instead urges the Commission to adopt the following Year End Forecast where 2016’s Q4 is based on FEI’s experience in Q4 of 2015 with some adjustments in the calculations as described below. As a result of this restated Q4, FEI’s YEF is now \$89,252: \$39,252 more than specified at FEI’s Workshop.</p>	<p>The calculation of the 2016 projected cross charges is only an estimate at this time. The calculations of MoveUp and FEI differ by only \$9,000, and both are below \$100,000. FEI therefore does not see any reason to debate which projection may or may not be more accurate.</p> <p>In the next Annual Review, actual 2016 cross charges will be available. If the 2016 costs exceed the \$100,000 threshold, then FEI will provide an analysis of various cost allocation methodologies and provide evidence as to which will provide the most appropriate results, as directed.</p>
<p>As a result of the escalation in the utilities’ operational merging of their customer service</p>	<p>There has been no “misstatement” of the cross charges, for the reasons set out above.</p>

⁴⁴ Exhibit B-11, Undertaking No. 2.

MoveUP Submission	FEI Response
<p>functions and the material misstatement of the cross-charges associated with just the CSR-related activities, the Union respectfully requests that this Commission Panel order a process to determine whether the utilities' current Per Interaction costing is appropriate, particularly whether, in light of the increase in this activity, it adequately avoids cross-utility subsidies whereby one group of ratepayers is subsidizing another, and a second, more general process to determine whether the melding of the utilities' customer care functions to one or a blended employee pool is wise, from a cost as well as a service and safety perspective.</p>	<p>No additional process is warranted. FEI and FBC's Annual Review processes have already resulted in a significant level of resources being devoted to an issue that has no material consequence on FEI's rates and that is for the benefit of customers.</p> <p>FEI is calculating the cross charges using a reasonable cost per interaction method, as confirmed by the Commission in its Decision in last year's Annual Review. Moreover, it is unclear what other reasonable method of allocation could be available given the circumstances where staff are not focussed solely on FBC work when available to take FBC calls.⁴⁵</p> <p>Furthermore, the cost of an additional proceeding to review the cost allocation methodology would quickly exceed the amount of cross charges between the utilities, let alone any marginal variation in the charges that could possibly result from adopting a new methodology. Given the small costs involved, it would be contrary to the interest of customers for any further costs to be spent analyzing and debating the allocation between the two utilities.</p>

(c) Mid-Term Review of PBR Process

33. In the final paragraph of its submission, the CEC requests a mid-term review of PBR:⁴⁶

The CEC submits that FEI is now at the mid-term for the PBR period and recommends that the Commission establish a review of the efficacy of the PBR

⁴⁵ Transcript, Vol. 1, p. 95-99.

⁴⁶ CEC Argument, p. 33.

process in order to evaluate PBR and determine the appropriate process to follow the end of the PBR period.

34. The CEC's request for a mid-term review is inconsistent with the PBR Plan as approved by the Commission, and is unnecessary. In its Decision approving the PBR Plan (the "PBR Decision",⁴⁷ the Commission explicitly declined to include a mid-term review in the PBR Plan, as was originally proposed by FEI, in favour of more thorough Annual Reviews. After setting out the requirements for the Annual Review process, the Commission stated in the PBR Decision:

Given this more comprehensive Annual Review, the Panel is of the view that a Mid Term Review will not be required.⁴⁸

35. In addition, since the evaluation of PBR is one of the topics that the Commission requires to be addressed in each Annual Review, a further evaluation of PBR as requested by CEC is unnecessary.⁴⁹ There is also no need at this point to determine an "appropriate process to follow the end of the PBR period" as CEC requests. The PBR Plan will continue as approved until the end of its term. There is no need for any additional process. The CEC's proposal should therefore be rejected.

C. Demand Forecast

36. FEI's forecast of demand for natural gas is based upon a methodology that is consistent with that used in prior years, and provides a reasonable estimate of natural gas demand for 2017. Based on surveys conducted by ITRON Inc. and Boreas Consulting, FEI's demand forecast method consistently outperformed the average performance of forecasts from other gas utilities which had a variance of 4%.⁵⁰ Based on its current methodology, FEI is forecasting an increase in consumption in 2017, with the total normalized demand projected to

⁴⁷ Commission Decision, In the Matter of FortisBC Energy Inc. Multi-Year Performance based Ratemaking Plan for 2014 through 2018, dated September 15, 2014 (Order G-139-14).

⁴⁸ PBR Decision, p. 186.

⁴⁹ PBR Decision, pages 185 to 186. Also see section 1.3 of the Application.

⁵⁰ Exhibit B-2, Appendix A4.

increase by approximately 6.9 PJs in 2017 from the 2016 approved consumption.⁵¹ Based on the existing common rates for each customer class, FEI's 2017 revenue forecast is \$1,070.118 million and 2017 gross margin forecast is \$774.715 million.⁵²

37. In Appendix A4 of the Application, FEI provides an analysis of alternatives to FEI's existing forecast method. FEI identified and tested alternative forecast methods and found that one alternative method - Holt's exponential smoothing or "ETS" - offers the potential to improve on the accuracy of FEI's existing method. FEI proposes to continue testing this alternative over the remainder of the PBR term to determine if it is preferable to the existing method.

38. BCOAPO submits that any new forecast methodology "should be considered in a general rate application".⁵³ Since FEI is proposing to test ETS over the remainder of the PBR term, FEI would present its evaluation of the ETS methodology in the first revenue requirements proceeding following PBR. FEI believes this should satisfy BCOAPO's concern.

D. Service Quality Indicators

39. As set out in detail in FEI's Application, responses to information requests and FEI's workshop presentation, FEI's 2015 and 2016 year-to-date SQI results indicate that the Company's overall performance is representative of a high level of service quality.

40. FEI submits that in this Annual Review the Commission should assess FEI's 2015 service quality. This follows the Commission's Reasons for Decision accompanying Order G-44-16 in FBC's All Injury Frequency Rate Compliance Filing. The Commission determined there that

⁵¹ Exhibit B-2-1, Financial Schedules, Schedule 16.

⁵² Ibid.

⁵³ BCOAPO Argument, p. 4.

it was appropriate to review FBC's service quality for a year in the following year's Annual Review. The Commission stated:⁵⁴

The Panel finds that the most appropriate timing for determining if a serious degradation of service has occurred and if a financial penalty is warranted is during the following year's annual filing. FortisBC Inc. is directed to address its 2015 service quality and/or penalties in its next Annual Review filing, anticipated in the summer or fall of 2016. Going forward, it is anticipated that this same timing will be used to make final determinations on questions of serious degradation of service and financial penalties for subsequent years covered by the Performance Based Ratemaking regime. The Panel agrees with FBC that this lag provides for a more complete evidentiary record on which to make the necessary determinations. Further, as compared to a transition to mid-year SQIs, this approach provides a more elegant and effective solution to the problem contemplated in the Reasons to Order G-202-15.

41. FEI agrees with the approach set out in this directive and believes the rationale applies equally to the review of FEI's service quality under PBR.

42. The 2015 SQI results indicate a high level of service quality. For those SQIs with benchmarks, seven performed better than the approved benchmarks and two performed better than the threshold and within the performance range.⁵⁵ For the four SQIs that are informational only, performance remained at a consistent level with prior years.⁵⁶

43. Intervenors did not take any issue with FEI's service quality performance in their arguments. However, BCSEA did comment on one topic. In its presentation at the Workshop, FEI presented SQI results as being "within range" if they were within the satisfactory performance range approved by the Commission (i.e. between the threshold and the benchmark).⁵⁷ BCSEA takes issue with this aspect of FEI's presentation of its SQI results and appears to characterize performance within the satisfactory performance range as less than acceptable. BCSEA states:

⁵⁴ Commission Order G-44-16, dated April 1, 2016, Appendix A, p. 3.

⁵⁵ Exhibit B-2, p. 16, lines 7-8.

⁵⁶ Exhibit B-2, p. 16, lines 8-9.

⁵⁷ Exhibit B-10, slides 34 to 36.

In terms of the presentation of SQI results, FEI has used the term “within range” to refer to results that are between the threshold and the benchmark. In BCSEA-SCBC’s view, it would not be consistent to characterize an SQI result that is between the threshold and the benchmark as acceptable, if that is the implication of “within range.” In BCSEA-SCBC’s view, the benchmark is the acceptable performance level, and the threshold indicates a performance level below which performance may be not only unacceptable but may (subject to further consideration by the Commission) constitute serious degradation of service potentially warranting a financial consequence under the PBR framework.⁵⁸

44. The characterization of performance within the satisfactory performance range as “acceptable” is consistent with the PBR Decision. In the PBR Decision, p. 154, the Commission stated: “the Commission Panel determines that the most effective way to manage SQIs is to set a satisfactory performance range. The achievement of performance metrics that fall within this range is acceptable. ...Performance benchmarks would continue to be determined which would serve as a target only and failure to reach them would not have consequences.” [Emphasis added.] Thus, as stated by the Commission in the PBR Decision, performance within the satisfactory performance range is acceptable.

45. With respect to performance below the threshold, as stated in the Consensus Recommendation approved by the Commission in Order G-14-15, performance inferior to a threshold does not necessarily represent a serious degradation of service or warrant adverse financial consequences for FEI, but is a circumstance that warrants examination at an Annual Review to determine whether further action is warranted. Performance inferior to a threshold is a factor that the Commission may consider in determining whether there has been a serious degradation of service and whether adverse financial consequences for FEI are warranted.⁵⁹

46. While performance within the satisfactory performance range is acceptable, FEI has demonstrated that it has taken action to meet or exceed the benchmarks for its SQIs. With respect to the two SQI results within the satisfactory performance range in 2015:

⁵⁸ BCSEA Argument, page 5.

⁵⁹ Exhibit B-6, CEC IR 1.33.2.

- FEI has improved its emergency response time since 2014 in all operating zones. In 2015, the result improved from 96.7 to 97.3, and it has continued to improve in 2016. This reflects a combination of factors, including a decrease in the number emergency events and changes made to technician shift schedules starting January 2015. The changes to shift schedules were made to provide more emergency response capacity in the late afternoon and early evening.⁶⁰
- FEI has taken significant efforts to improve its All Injury Frequency Rate (AIFR). Specifically, FEI has sought to improve its safety culture through implementation of the Target Zero program. The AIFR results have been trending positively and are better than the benchmark as of September 30, 2016.⁶¹

47. FEI submits that it has appropriately characterized its performance under the SQIs and that its 2015 SQI results reflect a high level of service quality.

PART THREE: CONCLUSION

48. FEI submits that based on the evidence in this proceeding the approvals sought by FEI are just and reasonable and should be approved as filed.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

Dated: November 2, 2016

[original signed by Christopher Bystrom]

Christopher Bystrom
Counsel for FortisBC Energy Inc.

⁶⁰ Exhibit B-2, p. 133; Transcript, Vol. 1, pp. 71-73.

⁶¹ Exhibit B-2, P. 133-134; Transcript. Vol. 1. pp. 77-82. Also see Exhibit B-7, MoveUP IR 1.7.4 and 1.8 series.